

***Rural Water District No. 1  
Phillips County, Kansas***

***Financial Statements***

***December 31, 2011***

*ATC Accounting*

Rural Water District No. 1, Phillips County, Kansas  
Financial Statements  
December 31, 2011

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water District No. 1, Phillips County, Kansas  
Phillipsburg, Kansas 67661

We have audited the accompanying statements of cash and unencumbered cash; cash receipts and disbursements; and disbursements for the Rural Water District No. 1, Phillips County, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Rural Water District No. 1, Phillips County, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the guidance in the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Rural Water District No. 1, Phillips County, Kansas, has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis laws of the State of Kansas, which practices differ from Generally Accepted Accounting Principles (GAAP) in the United States of America. The effect on the financial statements of the variances between the regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Rural Water District No. 1, Phillips County, Kansas as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, the Rural Water District No. 1, Phillips County, Kansas has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Rural Water District No. 1, Phillips County, Kansas, as of December 31, 2011, and its cash receipts and expenditures for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

Respectfully submitted,

*ATC Accounting*

ATC Accounting

May 8, 2012

Rural Water District No. 1, Phillips County, Kansas  
Summary of Cash Receipts, Expenditures, and Encumbered Cash  
For the Year Ended December 31, 2011

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances And Accounts Payable	Ending Cash Balance
Proprietary Fund Types:						
Enterprise Fund						
Operations and Maintenance	\$ 82,389	\$ 212,880	\$ 213,142	\$ 82,127	\$ 4,798	\$ 86,925
Principal and Interest	24,593	86,350	78,420	32,523	-	32,523
Total Reporting Entity	<u>\$ 106,982</u>	<u>\$ 299,230</u>	<u>\$ 291,562</u>	<u>\$ 114,650</u>	<u>\$ 4,798</u>	<u>\$ 119,448</u>

Checking Accounts	\$ 33,501
Savings and Certificates of Deposits	<u>85,947</u>
Total Reporting Entity	<u>\$ 119,448</u>

The notes to the financial statements are an integral part of this statement

Rural Water District No. 1, Phillips County, Kansas  
Operations and Maintenance Fund  
Statement of Cash Receipts and Expenditures – Actual  
For The Year End December 31, 2011

	Actual
Cash Receipts	
Water Sales	\$ 161,040
Member Investments	18,000
Reimbursements	32,614
Interest on Idle Funds	419
Miscellaneous	807
	<hr/>
Total Cash Receipts	212,880
	<hr/>
Expenditures	
Salaries	26,793
Employee benefits	6,390
Mileage	235
Repairs and maintenance	54,690
Utilities	5,130
Rent	5,400
Supplies, postage, internet	3,964
Insurance	6,824
Training	2,542
Professional fees	3,413
Fuel	6,471
Taxes	3,286
Dues and fees	1,742
Transfer to Principal and Interest	86,262
	<hr/>
Total Expenditures	213,142
	<hr/>
Cash Receipts Over (Under) Expenditures	(262)
Unencumbered Cash, January 1	82,389
	<hr/>
Unencumbered Cash, December 31	<u><u>\$ 82,127</u></u>

The notes to the financial statements are an integral part of this statement

Rural Water District No. 1, Phillips County, Kansas  
Principal and Interest Fund  
Statement of Cash Receipts and Expenditures – Actual  
For The Year End December 31, 2011

	Actual
Cash Receipts	
Transfer from Operations and Maintenance	\$ 86,262
Interest on Idle Funds	<u>88</u>
Total Cash Receipts	<u>86,350</u>
Expenditures	
Principal	17,284
Interest	<u>61,136</u>
Total Expenditures	<u>78,420</u>
Cash Receipts Over (Under) Expenditures	7,930
Unencumbered Cash, January 1	<u>24,593</u>
Unencumbered Cash, December 31	<u><u>\$ 32,523</u></u>

The notes to the financial statements are an integral part of this statement

Rural Water District No. 1, Phillips County, Kansas  
Notes to Financial Statements  
December 31, 2011

1. Summary of Significant Accounting Policies

Reporting Entity

Rural Water District No. 1, Phillips County, Kansas (the District) was formed as a public body under the provisions of K.S.A. 82a-613 et seq and is exempt from federal and state income taxes.

The purpose of the District is to acquire water and water rights, to build and acquire pipelines and other facilities; to operate the same for the purpose of furnishing water for domestic, garden, livestock and other purposes to owners and occupants of land located within the District, and to others as authorized by the by-laws.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the District has no component units.

Fund Accounting

The accounts of the District are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Funds are classified into three categories: governmental, proprietary and fiduciary. Within one category there are one or more fund types. The District uses the following fund types:

Proprietary Type Funds

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

## Basis of Accounting

Statutory Basis of Accounting – The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased.

Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an inter-fund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and the expenditure would be charged in the fund from which the transfer is made.

The District has approved a resolution that is in compliance with Kansas Statutes, waiving the requirement for application of generally accepted accounting principles of the United States of America and allowing the District to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles in the United States of America – The basis of accounting described above results in a financial statement presentation which shows cash receipts, expenditures, cash and unencumbered cash balances. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

## Leave Policies

The District had no established leave policy as of December 31, 2011 since all employees are part-time.

## 2. Deposits and Investments

As of December 31, 2011, the District had no investments other than certificates of deposit.

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located or in an adjoining county if such an institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes;



no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

#### Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutes to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas District, or the Federal Home Loan Bank of Topeka, except during the designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the District's carrying amount of deposits was \$119,448 and the bank balance was \$147,589. The bank balance was held by four banks resulting in no concentration of credit risk. Of the bank balance \$147,589 was covered by federal depository insurance.

#### Custodial Credit Risk – Investments

For investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

### 3. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the District purchases commercial insurances.

During the year ended December 31, 2011, the District did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three years.

### 4. Inter-fund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
Operations & Maintenance Fund	Principal and Interest Fund	\$ 86,262

#### 5. Related Party Footnote

Bruce Williams was appointed to finish the term of a resigned board member. Bruce Williams is an employee of Rangeland Cooperative of which the Rural Water District purchases fuel for their vehicle. Bruce Williams abstains from any voting relating to Rangeland Cooperative. The total amount of payments from the Rural Water District to Rangeland Cooperative in 2011 was \$6,458.

#### 6. Subsequent Events

In preparing these financial statements, the Rural Water District has evaluated events and transactions for potential recognition or disclosure through May 8, 2012, the date the financial statements were available to be issued.

## 6. Long-term Debt

Changes in long-term liabilities for the District for the year ended December 31, 2011, were as follows:

Issue	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Beginning Balance 01/01/11	Additions	Reductions/ Payments	Net Change	Ending Balance 12/31/11	Interest/ Service Fees Paid
USDA Loans:										
Loan #1	4.250%	2007	\$ 981,200	2047	\$ 966,060	-	\$ 11,327	\$ -	\$ 954,733	\$ 40,837
Loan #2	4.125%	2007	502,800	2047	494,822	-	5,957	-	488,865	20,299
Total Contractual Indebtedness					\$ 1,460,882	\$ -	\$ 17,284	\$ -	\$ 1,443,598	\$ 61,136

Year	USDA Loan #1		USDA Loan #2		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 11,703	\$ 40,461	\$ 6,209	\$ 20,047	\$ 17,912	\$ 60,508
2013	12,325	39,839	6,468	19,788	18,793	59,627
2014	12,859	39,305	6,740	19,516	19,599	58,821
2015	13,416	38,748	7,024	19,232	20,440	57,980
2016	13,889	38,275	7,265	18,991	21,154	57,266
2017-2021	79,499	181,321	41,412	89,868	120,912	271,188
2022-2026	98,290	162,530	50,882	80,398	149,172	242,928
2027-2031	121,523	139,297	62,519	68,761	184,042	208,058
2032-2036	150,193	110,627	76,790	54,490	226,983	165,117
2037-2041	185,783	75,037	94,395	36,885	280,178	111,922
2042-2046	229,704	31,116	115,986	15,294	345,689	46,411
2047	25,549	315	13,175	160	38,724	475
	<u>\$ 954,733</u>	<u>\$ 896,871</u>	<u>\$ 488,865</u>	<u>\$ 443,430</u>	<u>\$ 1,443,598</u>	<u>\$ 1,340,301</u>